

Helping Small Businesses Thrive: Lessons from a Loan Program in Ecuador

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Governments and development institutions dedicate substantial resources to programs aimed at expanding access to finance for micro, small, and medium-sized enterprises (MSMEs), with the expectation that these programs will foster job creation and inclusive economic growth. Many of these initiatives are implemented through private banks, which decide which firms ultimately receive credit. Yet, rigorous evidence on the effectiveness of such programs remains limited. Do they actually help firms expand? Do they reach those businesses most constrained by lack of credit?

In a recent study, we examined these questions in the context of a loan program in Ecuador launched by the state development bank, Corporación Financiera Nacional (CFN), with World Bank support and funding.

The Second-Tier Lending Program

The program was designed to extend credit to MSMEs and stimulate firm-level growth, with a focus on women-owned firms and those who did not already have loans. CFN provided second-tier credit lines to 22 commercial banks and other financial institutions, including some of the largest commercial banks in the country. These financial institutions then screened and selected the borrowing firms. Between 2021 and early 2025, more than USD 500 million in loans were disbursed to over 24,000 borrowers.

Administrative Data on Firm Outcomes

We evaluated the program's effects using annual administrative data from the Directory of Companies of the Superintendence of

Companies, Securities, and Insurance, covering the period 2019 to 2023. Since the data only includes formal firms, the evaluation focuses on a subset of 2,035 program recipients. The other recipients were mainly self-employed individuals, who are not in the administrative data we use.

Compared to other firms in the administrative data, program participants were more likely to be woman-owned, which is in line with the program's goals. However, participants were also more likely to have a prior loan, suggesting that the program may not have reached the most credit-constrained firms.

Measuring Impact

Because the program's rollout was staggered across firms, we were able to compare those that had already received loans with those that had not yet participated. We first show that the timing of participation in the program was not systematically driven by prior firm performance. We then use Callaway and Sant'Anna's staggered difference-in-differences estimator to identify the program's causal impact on key business outcomes.

What the Program Achieved

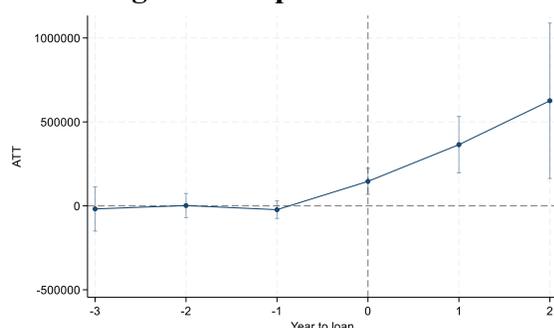
The program generated meaningful improvements for participating firms.

- On average, recipients increased total financing by 26%. This is an important first stage as credit constraints are key growth barriers for many Ecuadorean firms.

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- Firms that obtained loans through the program used this capital to invest in short-term assets, which grew by 17%.
- The program created jobs in participating firms, increasing employment by nearly 9%.
- The program also increased sales, by more than 20% with gains accumulating over time (see Figure 1).

Figure 1: Impacts on Sales



Notably, the positive effects of the program were observed across both men- and women-owned firms.

The strongest impacts, however, were concentrated among firms that had not previously borrowed from banks. For this group, employment expanded by 27%, short-term assets surged by 87%, and sales nearly doubled.

In contrast, firms with an existing credit history saw more modest gains. These firms mainly used program loans to reduce borrowing costs, by substituting high-cost financing with cheaper credit. But the program did not significantly increase total borrowing or performance for those firms with previous credit access.

Financial Inclusion vs. Risk-Taking

Our findings highlight a tension in the design of this type of financial sector programs. Although the initiative aimed to reach unbanked firms in most need of financing, participating banks often favored larger, less constrained SMEs. From a commercial standpoint, this behavior may reflect banks' preferences to minimize risk and safeguard returns. From a policy perspective, however, it points to the challenge of aligning private banks' incentives with financial inclusion goals.

Policy Implications

1. *Credit can unlock growth, especially for the unbanked.* The largest effects were concentrated among firms that had previously been excluded from formal finance. Targeting this group yields the highest returns.
2. *Delivery mechanisms matter.* CFN's second-tier model enabled rapid scaling and leveraged banks' screening expertise but also made it harder to ensure that the most constrained firms were reached.
3. *Aligning incentives is critical.* To maximize impact, loan programs should incorporate mechanisms that align private banks' incentives with development goals. For instance, performance-based incentives may encourage banks to extend credit to riskier, high-potential firms that they would otherwise avoid.

For further reading see: Miriam Bruhn, Federico Diaz Kalan, Nicolò Fraccaroli, and Claudia Ruiz Ortega. [Access to Finance for MSMEs in Ecuador: A Firm-Level Impact Evaluation](#). *World Bank Policy Research Working Paper 11121*.

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